

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0736-08
Bill No.: SCS for HCS for HB 288
Subject: Education, Elementary and Secondary; Elementary and Secondary Education
Dept; Gambling; Teachers; Board, Commissions, Committees, Councils; Children
and Minors; Utilities
Type: Original
Date: April 29, 2003

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
General Revenue	\$0	(\$0 or \$10,276,027)	(\$0 or Up to \$20,552,054)
Total Estimated Net Effect on General Revenue Fund	\$0	(\$0 or \$10,276,027)	(\$0 or Up to \$20,552,054)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
State School Moneys Fund	\$0	\$0	\$0
Priority Schools Trust Fund	\$0	\$0	\$0
Gaming Proceeds for Education Fund	\$0	\$0	\$0
Lottery Proceeds Fund	\$0	(\$6,000,000)	(\$6,000,000)
Total Estimated Net Effect on Other State Funds	\$0	(\$6,000,000)	(\$6,000,000)

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 15 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
School Districts	\$0	\$3,000,000 or \$8,138,013	\$3,000,000 or Up to \$13,276,027

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Missouri Gaming Commission** and the **Office of the State Treasurer** assume this proposal would not fiscally impact their respective agencies.

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** indicated this proposal should not result in additional costs or savings to BAP.

Officials from the **Secretary of State's Office (SOS)** assumed the rules, regulations and forms issued by the Department of Elementary and Secondary Education and the State Board of Education could require as many as 44 pages in the *Code of State Regulations*. For any given rule, roughly half again as many pages are published in the *Missouri Register* as in the Code because cost statements, fiscal notes and the like are not repeated in the Code. These costs are estimated. The estimated cost of a page in the *Missouri Register* is \$23. The estimated cost of a page in the *Code of State Regulations* is \$27. The actual costs could be more or less the SOS's estimated cost of \$2,706 for FY 2004. The impact of this legislation in future years is unknown and depends upon the frequency and length of rules, filed, amended, rescinded or withdrawn.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations

related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process.
ASSUMPTION (continued)

Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

SECTION 160.071 - EDUCATIONAL SERVICE AGENCIES

Officials from the **Department of Elementary and Secondary Education (DESE)** indicated that DESE would pay the “educational service agencies” directly which could affect calculation and distribution of school payments. They further state that the proposal has the potential to have significant fiscal impact depending on who is eligible under the proposal, whether school districts would participate, whether payments would impact the school payment, and whether the educational service agencies could set property tax rates and collect taxes. DESE indicated that local school districts would likely see costs to manage the educational service agencies.

In response to a similar proposal, officials from the **Kansas City, Missouri School District (KCMSD)** indicated there would be no fiscal impact to KCMSD. The only contract for management KCMSD is with an existing corporation and they do not anticipate using a separate, as yet non-existent non-profit corporation.

In response to a similar proposal, officials from the **Saint Louis Public Schools** stated that they assume there could be a cost associated with this proposal but are unable to determine the impact, if any, at this time.

Oversight assumes that if school districts would utilize an “educational service agency”, costs associated with managing the agencies could be offset by having less direct administrative costs. Also, since the language is permissive, **Oversight** assumes no fiscal impact.

SECTIONS 160.534, 160.731, 163.201, 164.303

Officials from the **Department of Elementary and Secondary Education (DESE)** assume that in such year as the chairs of the House Budget Committee and the Senate Appropriations Committee and the Commissioner of Education agree that the school funding formula in section 163.031 would have a proration factor of 1.00, the money in the Gaming Proceeds for Education Fund shall be transferred as follows:_____

ASSUMPTION (continued)

FY	FY 03 Estimated Gaming Proceeds	%	Priority Schools Trust Fund	%	Transferred To SSMF	Gen Revenue Replacement Needed in SSMF
'05	\$205,520,542	5%	\$ 10,276,027	95%	\$195,244,515	\$ 10,276,027
'06	\$205,520,542	10%	\$ 20,552,054	90%	\$184,968,488	\$ 20,552,054
'07	\$205,520,542	15%	\$ 30,828,081	85%	\$174,692,461	\$ 30,828,081

Oversight notes that the proposal states that if the chairs of the House Budget Committee and Senate Appropriations Committee determine that the appropriation for the school funding formula contained in Section 6 of Section 163.031, RSMo, is insufficient to provide a proration factor on lines 1a and 1b of 1.0, the transfers will not occur. **Oversight** has acknowledged this possibility by stating the fiscal impact as \$0 or the amount of transfer if the proration factor is at least 1.0.

SECTION 163.201.3

Officials from the **Missouri Lottery Commission (LOT)** stated that Lottery unclaimed prizes on an annual basis are approximately \$6 million; however, LOT assumes the Missouri Constitution requires all lottery profits to be transferred to the Lottery Proceeds Fund, which would prohibit the transfer of unclaimed prizes to any other statutorily-created fund.

Oversight assumes that although funds would initially be deposited in the Lottery Proceeds Fund, they would then be transferred from that fund to Priority Schools Trust Fund.

SECTION 165.011

Officials from the **Department of Elementary and Secondary Education (DESE)** made the following observations and assumptions regarding this section of the proposal:

This proposal accomplishes three changes to school district interfund transfer authority found in Section 165.011, RSMo.

(1) It provides that the transfer allowed in subsection 4 (GBT/Line 1 transfer) shall be reduced

by the amount expended from the General (Incidental) Fund for classroom instructional capital outlay.

(2) It eliminates the existing interfund transfer authority for one group of school districts and ASSUMPTION (continued)

authorizes the same transfer for a different group of school districts.

(3) It creates a new one-time interfund transfer authority for districts meeting certain requirements.

Section 165.011.4 (3) (b)

Referring to item 1 above, this provision places a new cap on the amount of interfund transfer allowed pursuant to Section 165.011 (4) by reducing the amount of the transfer from the Incidental Fund to the Capital Projects Fund by the amount of expenditure from the Incidental Fund for certain capital outlay. This provision follows current practice.

The change referenced in item 1 above will not add state cost to the foundation formula.

Section 165.011.7

Referring to item 2 above, subsection 7 currently allows school districts with a tax levy for school purposes no greater than \$2.75 and a “grand fathered” lease purchase contract to transfer annually, the amount required to pay the principal and interest on the lease purchase PLUS an amount equal to the maximum transfer calculation allowed in Subsection 6. This is a significant transfer authority for this group of districts.

The proposal eliminates this additional annual transfer authority for selected grand fathered lease purchase districts based on tax levy and lease purchase status and gives this additional transfer authority to school districts meeting the following requirements found in:

- (a) Section 163.031, RSMo, which requires school districts to meet the requirements of Section 163.021, eligibility for state aid and proper placement by fund (Incidental and Teachers Funds) of state aid received pursuant to this section.
- (b) Section 163.021, RSMo, which establishes eligibility criteria for the receipt of state aid, or increases in state aid.
- (c) Section 165.016(6), RSMo, which requires the compensation of building-level administrative staff and non-administrative certificated staff in an amount equal to 110% of the amount by which the district underpaid certificated staff based on the appropriate compliance percentage in the second preceding year.

Based on 2002 data, 23 grand fathered lease purchase districts were eligible to make the

additional transfer authorized pursuant to 165.011(7). This proposal would make 13 (56% reduction) of those districts ineligible to make the additional transfer based on the grand fathered lease purchase.

ASSUMPTION (continued)

The change referenced in item 2 above will not add state cost to the foundation formula.

Section 165.011.13

Referring to item 3 above, a new interfund transfer is created which allows a one-time transfer from the Incidental Fund to the Capital Projects Fund in addition to other transfers authorized pursuant to Section 165.011, RSMo. This proposal would allow the transfer of district funds to decrease total interest payments for a lease purchase authorized by Section 177.088, RSMo. This new authorization only applies to districts:

- (a) With an ending fund balance of 15% or greater.
- (b) That decreases the interest cost of all remaining lease purchase obligations by a specified amount.
- (c) Whose lease purchase payment exceeds the allowable GTB/Line 1 interfund transfer for lease purchases meeting the eligibility requirement of subsection 6 (grand fathered lease purchase) of 165.011, RSMo.
- (d) Whose tax levy in the combined Incidental plus Teachers Funds is \$2.75 or greater for the past three years (current year plus prior two years).
- (e) That complies with certificated salary requirements pursuant to Section 165.016, RSMo, or paid all appropriate certificated salary penalties for the preceding 5 years.
- (f) With an average teachers salary, which equals or exceeds the state average teacher salary, or the average teachers salary in its senatorial district for three consecutive years prior to the year of transfer.

Based on 2002 data, the proposed change found in item 3 when screening for requirements a, c, d and e above, no district would be eligible to make the new transfer as outlined in this proposal.

The change referenced in item 3 above will not add state cost to the foundation formula but could add minimal cost/staff time to accommodate additional programming required to identify average teacher salary by senatorial district.

Summary Observation:

1. This proposal decreases the amount of transfer authority available for certain districts with grand fathered lease purchases and reduces the number of grand fathered lease purchase districts able to participate in this transfer.
2. This proposal increases the amount of transfer out of the Incidental Fund for those districts meeting certificated salary requirements.

ASSUMPTION (continued)

3. The requirements found in this bill to become eligible to make the new one-time transfer eliminate all school districts from participation.
4. Currently, average teacher salary data is not maintained by senatorial district.

In determining local (school district) fiscal impact, DESE assumes that limiting or decreasing the school districts' authority to transfer funds from the Incidental fund to the Capital Projects fund would hinder their ability to obtain capital improvements. Currently, average teacher salary data is not maintained by senatorial district. Districts could see a minimal increase in staff time to accommodate additional programming required to identify average teacher salary by senatorial district.

Oversight assumes that if any districts would qualify, the staff time required for additional programming could be absorbed with existing resources.

SECTION 165.016

Officials from the **Department of Elementary and Secondary Education (DESE)** stated there would be no cost or savings to their agency as a result of this section of the proposal. DESE indicated that this proposal would give flexibility to local boards of education to adjust budgets as necessary to cope with decreasing foundation formula revenue.

SECTION 393.310

Officials from the **Department of Economic Development - Public Service Commission (PSC)** indicated this proposal would have no fiscal impact on the PSC or local school districts.

Officials from the **Department of Economic Development - Office of Public Counsel (OPC)** indicated that although this proposal may have some impact on their agency, OPC should be able to absorb the changes, however, if the requirements of the proposal are combined with additional requirements or changes OPC may incur a fiscal impact.

<u>FISCAL IMPACT - State Government</u>	FY 2004	FY 2005	FY 2006
GENERAL REVENUE FUND			
<u>Cost</u> - Increased Transfers to the State School Moneys Fund (Section 160.534.3)	<u>\$0</u>	<u>(\$0 or \$10,276,027)</u>	<u>(\$0 or Up to \$20,552,054)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$0</u>	<u>(\$0 or \$10,276,027)</u>	<u>(\$0 or Up to \$20,552,054)</u>
STATE SCHOOL MONEYS FUND			
<u>Income</u> - Increased Transfer from General Revenue Fund (Section 160.534.3)	\$0	\$0 or \$10,272,027	\$0 or Up to \$20,552,054
<u>Loss</u> - Decreased Transfers from Gaming Proceeds for Education Fund (Section 160.534.2)	<u>\$0</u>	<u>(\$0 or \$10,272,027)</u>	<u>(\$0 or Up to \$20,552,054)</u>
ESTIMATED NET EFFECT ON STATE SCHOOL MONEYS FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
GAMING PROCEEDS FOR EDUCATION FUND			
<u>Savings</u> - Decreased Transfers to State School Moneys Fund (Section 160.534.2)	\$0	\$0 or \$10,276,027	\$0 or Up to \$20,552,054
<u>Cost</u> - Transfer to the Priority Schools Trust Fund (PSTF) (Section 160.534.2)	<u>\$0</u>	<u>(\$0 or \$10,276,027)</u>	<u>(\$0 or Up to \$20,552,054)</u>

**ESTIMATED NET EFFECT ON
 GAMING PROCEEDS FOR
 EDUCATION FUND
 LOTTERY PROCEEDS FUND**

<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
FY2004	FY 2005	FY 2006

<u>Cost</u> - Transfer to PSTF (Section 163.201.3)	<u>\$0</u>	<u>(\$6,000,000)</u>	<u>(\$6,000,000)</u>
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**ESTIMATED NET EFFECT ON
 LOTTERY PROCEEDS FUND**

<u>\$0</u>	<u>(\$6,000,000)</u>	<u>(\$6,000,000)</u>
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PRIORITY SCHOOLS TRUST FUND

<u>Income</u> - Transfer from the Gaming Proceeds for Education Fund (Section 160.534.2)	\$0	\$0 or \$10,276,027	\$0 or Up to \$20,552,054
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<u>Income</u> - Transfer from Lottery Proceeds Fund (Section 163.201.3)	\$0	\$6,000,000	\$6,000,000
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<u>Cost</u> - Distribution to School Districts (Section 163.201.1)			(\$6,000,000 or Up to
	<u>\$0</u>	<u>(\$6,000,000 or \$16,276,027)</u>	<u>\$26,552,054)</u>

**ESTIMATED NET EFFECT ON THE
 PRIORITY SCHOOLS TRUST FUND**

<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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FISCAL IMPACT - Local Government

FY 2004

FY 2005

FY 2006

PRIORITY SCHOOL DISTRICTS

Income - Distributions from Priority
 Schools Trust Fund (Section 163.201.1)

\$0	\$6,000,000 or \$16,276,027	\$6,000,000 or Up to \$26,552,054
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Cost - Salary Supplement Grants (Section
 163.201.1)

\$0	(\$3,000,000 or \$8,138,014)	(\$3,000,000 or Up to \$13,276,027)
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**ESTIMATED NET EFFECT ON
 SCHOOL DISTRICTS**

<u>\$0</u>	<u>\$3,000,000 or</u> <u>\$8,138,013</u>	<u>\$3,000,000 or</u> <u>Up to</u> <u>\$13,276,027</u>
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FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

DESCRIPTION

This proposal establishes the Priority Schools Trust Fund and produces additional alterations to the state's education policy:

Section 160.071 - EDUCATIONAL SERVICE AGENCIES

Authorizes school districts to designate an educational service agency, organized as a nonprofit corporation, for the purpose of developing, managing, and providing instructional services or programs to the participating district or districts.

Sections 160.534, 160.731, and 163.201 - ESTABLISHES THE PRIORITY SCHOOLS TRUST FUND

LMD:LR:OD (12/02)

Section 160.534

Currently, the moneys from the Gaming Proceeds for Education Fund (in excess of the amount DESCRIPTION (continued)

transferred to the school district bond fund) are deposited in the State School Moneys Fund for distribution to the foundation formula.

Section 160.534.2

Beginning in fiscal year 2005, five percent of these funds shall be redirected to the Priority Schools Trust Fund (PSTF), which is created by this proposal. In fiscal year 2006, 10% of these funds shall be redirected to the PSTF. By fiscal year 2007, and each fiscal year thereafter, 15% of these funds shall be redirected to the PSTF.

Section 160.534.3

Requires that the monies transferred to the PSTF shall be replaced in the State School Moneys Fund by general revenue.

Section 160.534.4

States that the priority schools trust fund transfers shall only occur during fiscal years where the chair of the Senate Appropriations Committee, the chair of the House Budget Committee, and the Commissioner of Education jointly determine that the appropriation for the school funding formula would have been sufficient to provide a proration factor on lines 1a and 1b of 1.0 or greater if the aid were distributed pursuant to the school funding formula as such formula existed in law on January 1, 2003.

Section 160.731

Directs the Department of Elementary and Secondary Education to award, subject to appropriation, salary supplement grants to priority schools employing high quality teachers. The grants shall be awarded to eligible teachers as salary supplement grants of three thousand dollars. Any salary supplement shall be in addition to the base salary to which the teacher would otherwise be entitled.

Instructs the state Board of Education to establish by administrative rule the qualifications for high quality teachers.

Section 163.201.1

The Priority Schools Trust Fund (PSTF) is created in the state treasury, and for fiscal year 2005
DESCRIPTION (continued)

and each subsequent year, the PSTF monies shall be distributed by the state board of education. Fifty percent of the moneys transferred in the current year to the fund shall be used to fund uniform salary supplement grants to all high quality teachers employed in priority schools, provided that the amount distributed to fund such grants shall not exceed the amount needed to fund salary grants to all eligible teachers in the amount of three thousand dollars for every eligible teacher.

The remaining moneys transferred in the current year to the fund shall be distributed to all priority school districts in an amount per eligible pupil that is equal to the district's current year formula amount per eligible pupil times the quotient of the amount of funds to be appropriated pursuant to this subsection to priority school districts divided by the total current year formula entitlement for all priority school districts.

Section 163.201.2

The moneys distributed to priority school districts shall be used by the district to implement the district's comprehensive strategy for addressing areas of deficiency.

Section 163.201.3

The PSTF shall consist of all moneys transferred to it pursuant to Section 160.534, RSMo, as well as all moneys otherwise appropriated or donated to it. All unclaimed lottery prize money shall be transferred to the PSTF, notwithstanding any other provision of law to the contrary.

Section 162.261 - MEMBERSHIP QUALIFICATIONS FOR SCHOOL BOARDS

Asserts that no school board of any public school shall hire a spouse of any member of such board unless the position has been advertised pursuant to board policy and the superintendent of schools submits a written recommendation for the employment of the spouse to the board of education. The names of all applicants as well as the name of the applicant hired for the position are to be included in the board minutes.

Section 162.431 - SCHOOL DISTRICT BOUNDARY CHANGES

Applies standards to be utilized by the Board of Arbitration in determining whether a proposed school district boundary change is necessary. The standards for such a determination include the presence of: school-aged children in the affected area; actual educational harm to school-age children (significant differences in transportation time or educational opportunities); an DESCRIPTION (continued)

educational necessity, not a commercial benefit to landowners.

Section 162.601 - MEMBERSHIP QUALIFICATIONS FOR SCHOOL BOARDS

Removes a provision of law which disallows any person from running for the Board of Education of the St. Louis Public Schools who is employed by the school district or who is related to an employee of the school district within the second degree of affinity or consanguinity. Second degree of affinity or consanguinity is defined as a spouse, parent, child, grandparent, brother, sister, grandchild, mother-in-law, father-in-law, daughter-in-law, or son-in-law.

Section 165.011 - UNRESTRICTED FUNDS TRANSFERS

In addition to new subsections outlined below (Sections 165.011.13 and 165.011.14), the proposal also rearranges some existing wording, deletes material that has become obsolete, and makes some technical changes in the remainder of the section, which concerns placement and transfers of moneys in school district accounts.

Section 165.011.2 (2) (Deleted)

Deletes a provision which disallows school districts from making expenditures for certain lease purchase obligations from the district's capital projects fund unless the district levies, in the current year, a tax rate in the capital projects fund which is sufficient to generate revenues equal to or greater than the amount of such expenditure and collects such revenues and credits such revenues to the capital projects fund.

Section 165.011.4 (3) (b)

Alters the conditions by which a school district may transfer moneys from the incidental fund to the capital projects fund. The proposal prescribes that any amount expended from the incidental fund for classroom instructional capital outlays must be subtracted from the 9% of the district's entitlement used to calculate the limit on such transfers.

Section 165.011.7

Modifies the qualifications for school districts making transfers from the incidental fund to the capital projects fund by deleting the minimum levy and lease-purchase conditions and substituting compliance with provisions concerning compensation of certificated staff in the second preceding year or payment of all penalties for the second preceding year.

DESCRIPTION (continued)

Section 165.011.13

Sets out conditions under which a school district may refinance certain lease-purchase obligations.

Section 165.011.14

Allows school districts to transfer unrestricted funds from the capital projects fund to the incidental fund in any year in which that year's June 30 combined incidental and teachers funds unrestricted balance compared to the combined incidental and teachers funds expenditures would be less than ten percent without such transfer.

Section 165.016 - SALARY COMPLIANCE PROVISIONS

The already existing provisions of this section shall not apply to any school district that has unrestricted fund balances in the combined incidental and teacher funds on June 30th of the preceding year which are equal to or less than seventeen percent of the combined expenditures for the preceding year from these funds in any year in which state funds distributed pursuant to Section 163.631, RSMO, lines 1 to 10 plus line 14 are no more than 96% of such state funds distributed in fiscal year 2002.

The provisions of the this section of the proposal also shall not apply to any district which meets the following criteria:

- 1) With ten percent or more of its assessed valuation that is owned by one person or corporation as commercial or personal property who is delinquent in property tax payment;
- 2) With unrestricted fund balances in the combined incidental and teacher funds on June 30th of the preceding year which are equal to or less than one half of the local property tax revenue for the previous year; and

3) In any year in which state funds distributed pursuant to section 163.031, RSMo, lines 1 to 10 plus line 14 are no more than ninety-six percent of state funds distributed in fiscal year 2002.

Section 393.310 - PIPELINE CAPACITY COSTS FOR SCHOOLS WHICH AGGREGATELY PURCHASE NATURAL GAS

Requires the Public Service Commission to treat a gas corporation's pipeline capacity costs for schools which aggregately purchase natural gas in the same manner as large industrial or
DESCRIPTION (continued)

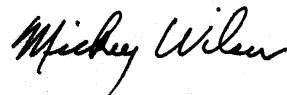
commercial customers.

This proposal contains an emergency clause.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Elementary and Secondary Education
Missouri Gaming Commission
Office of State Treasurer
Missouri Lottery Commission
Office of Administration
 Division of Budget and Planning
Department of Economic Development
 Public Service Commission
 Office of Public Council
Office of Secretary of State
 Administrative Rules Division



Mickey Wilson, CPA
Director
April 29, 2003